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10 June 1975

MEMORANDUM FOR THE RECORD

SUBJECT: Unclassified Material on Japanese-Soviet Timber Trade for Senator Gravel

The attached material was forwarded via

5X1A [redacted] Congressional Support Officer,
on 2 June 1975 for use by Senator Gravel. The report
was prepared jointly by [redacted]

25X1A

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5X1A OER/I/JP/ [redacted] (10 June 1975)

UNCLASSIFIED

2 June 1975

Soviet-Japanese Timber Trade

1. Japanese timber importers have turned increasingly to the West Siberian regions of the USSR as a source for wood and wood products. Japanese imports of Soviet timber products have risen from \$44 million US in 1965 to \$350 million in 1973. Roughly 87% of Japanese imports of timber products have consisted of unprocessed logs, although the USSR is in the process of upgrading the quality of its wood products to include wood chips, pulp, and paper.

2. The growth of Soviet-Japanese trade in timber products has been assisted by the conclusion of three counterpurchase agreements since 1969. In each case Soviet purchases of Japanese equipment, financed by low-interest long-term Japanese credits, is covered by long-term Soviet sales of timber which develop from the project in question. The agreements are as follows:

- In 1968 a consortium of Japanese firms agreed to purchase some 8 million cubic meters of timber, wood chips, or pulp during 1969-1973. In return the USSR was granted a \$133 million long-term credit to finance the purchase of timber harvesting equipment

and a \$33 million short-term credit to finance the purchase of consumer goods.

- In 1974 the same Japanese consortium closed a similar but far larger deal covering Soviet deliveries of over 18 million square meters of timber during 1975-1979. This second project is backed by a \$550 million Japanese Eximbank credit which will finance Soviet purchases of timber harvesting equipment, timber carrying ships, and consumer goods.
- In 1971 a consortium of 26 Japanese firms signed an agreement with the USSR whereby the Japanese companies would receive 8 million cubic meters of chips and 4.7 million cubic meters of pulp wood during 1972-1981. In return the Japanese agreed to provide \$45 million in long-term credits to finance the Soviet purchase of Japanese consumer goods.

3. Japanese firms are currently negotiating even larger projects with the USSR. Discussions are moving forward on the modernization and/or construction of three separate paper-pulp plants, two to be located in Eastern Siberia and a third along the Yenisei River in Western Siberia. Reportedly up to \$2 billion in Japanese equipment sales could be involved in the projects, which will call for substantial Soviet deliveries of paper and pulp during 1980-1990.

JAPAN TIMES
3 April 1975

Japan-Soviet Pulp Plant Projects Said Set

A Japanese business group pushing plans for joint development of natural resources in Siberia has tentatively decided to go ahead with three pulp and paper plant projects in a package deal with the Soviet Union, an industrial daily said Wednesday.

Quoting unspecified sources, the Nihon Kogyo Shinbun said the deal could cost Japan nearly \$2,000 million in credits to help finance Soviet purchases of Japanese plant equipment and services.

One of the projects is being negotiated by a private channel separately from the Japan-Soviet Business Cooperation Committee, which is responsible for the two other projects.

A spokesman for the committee, organized by Japanese business leaders, said it is considering the advisability of consolidating the three projects into a package deal but that no decision has been reached yet.

The projects being negotiated by the committee call for construction of pulp and

paper plants at Khabarovsk and Amursk, both in Far Eastern Siberia.

The third project is being pushed by a group of businesses represented by Oji Paper Co. It envisages construction of a plant capable of producing 500,000 tons of pulp and paper annually at Yeniseysk in western Siberia.

The vernacular daily said the Japanese paper industry is reluctant about the Yeniseysk project because it would involve greater transport costs than the other two.

Also behind the negative position is the prospect that Japanese paper demand will slow down in coming years and that the Khabarovsk and Amursk projects calling for a combined annual output of one million tons will suffice, the paper said.

The committee, however, considers the Yeniseysk project should also be undertaken together with the other two to help diversify paper supply sources and meet domestic demand on a long-term basis, it added.

SOVIET UNION

Timber and Paper

The largest U.S. papermaker, International Paper Co., signed a cooperation agreement with the Soviet Union with a view to participating in the development of the Yeniseisk (Siberia) pulp and paper complex, according to Soviet sources.

The Soviets are looking for Western partners to build a 580,000-ton a year pulp factory, a 300,000-ton newsprint plant, a 200,000-ton manila paper plant, and equipment for a large plywood factory.

Swedish and Finnish firms have participated in the Bratsk complex, the largest paper and pulp facility in the Soviet Union, while France is supplying equipment for the Ust-Ilim complex, with annual production of 500,000 tons of sulphate bleached pulp.

Meanwhile, the paper and pulp subcommittee of the Japan-Soviet Economic Committee has received a request from Machinimport to submit an estimate for mills which the Soviets are planning in Amursk and Khabarovsk (see EWM Nov. 18, p. 2). The Amursk mill is to make 250,000 tons of bleached pulp a year and Khabarovsk 200,00 tons of bleached pulp, 525,000 tons of newsprint, and 160,000 tons of writing paper.

The Japanese, who intend to have estimates ready by the end of March, are still puzzled whether the Soviets want new mills at new locations or intend to expand existing operations with annual capacities of 280,000 tons of paper (Amursk) and 45,000 tons (Khabarovsk).

(1)

NIHON KEIZAI (Full)

March 29, 1974

Pulp Facilities Capable of Producing One Million Tons of Pulp per Year to Be Constructed in Amur District; USSR Asks UEMURA and Others to Co-operate in This Project

According to a clarification made on the 28th by the circles concerned, the Soviet side recently showed the intention to construct pulp facilities (needle-leaf tree craft pulp) finally capable of producing one million tons of pulp, consisting of a 500,000-ton facility at the first stage and another 500,000-ton facility at the second stage, in the Amur district of the Maritime Province of Siberia, to Keidanren Chairman UEMURA and Japan Chamber of Commerce President HAGANO, who recently visited the USSR, and asked the Japanese side for co-operation. The Soviet side has already proposed to several leading trading firms of our country to submit estimates on a consistent paper and pulp manufacturing plant, including a 500,000-ton pulp facility, which is expected to be constructed in Yeniseisk of the Krasnoyarsk district, through its Lumber and Pulp Export Corporation and Machinery Import Corporation. Therefore, this means that the Soviet side has so far proposed to the Japanese side two paper and pulp construction projects.

Concerning the Amur district, the Soviet side just showed the place of development and its scale. However, it is viewed to be certain that the Soviet side is thinking of the PS formula (production-sharing formula), which aims at appropriating all or some pulp products to be exported for the payment of plant construction costs. The place of development is closer to the coast of the Japan Sea than in the case of the Yeniseisk project. Therefore, it can be said that the Amur district especially stands at an advantage over the other in regard to transportation cost, if exports to Japan are taken into consideration as a premise.

Putting all accounts together, the USSR is presently studying the possibility of developing paper and pulp enterprises on a full scale in two different places, the Maritime Province of Siberia and Irkutsk. In the Maritime Province, the USSR started to promote the construction of a paper and pulp plant in Komsomolsk along the Amur River from around 1970. In Irkutsk district, the USSR constructed a lumber kombinat capable of disposing of 5 million cubic meters of raw material wood a year in Bratsk. Besides, it is reportedly said that the USSR will shortly start to construct a pulp plant capable of producing 500,000 tons of pulp a year in Irmsk.

It is viewed that the plans shown to the Japanese side, one after another, this time aim at expanding the scale of development in the two places.

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The Japan Economic
10 Dec 74
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CHEMICALS & TEXTILES

Russians seek estimates on 2 paper-pulp plants

The Soviet Union has asked Japanese interests to present estimates on two paper-pulp plants it envisages as Siberian development projects, according to informants.

The scale of its plants, taken together, roughly is put at over \$1 billion and the yearly output at over 1 million tons.

The Russians are reported to have made the request for estimates recently to the Japanese paper-pulp com-

mittee of the Japan-Soviet Joint Economic Committee that takes up cooperation in Siberian projects.

The paper-pulp committee was said to be intending to submit estimates by the end of next March.

In the request, the USSR reportedly bared intention to construct bleached kraft facilities at Amursk having a capacity for 250,000 tons yearly and an integrated plant for making 525,000 tons yearly of newsprint, 160,000 tons of printing paper and 20,000 tons of bleached kraft pulp at Khabarovsk.

✓IV. 16 May 74

J A P A N

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① JAPAN TO HELP BUILD PAPER MILLS IN SOVIET FAR EAST

Tokyo KYODO in English 1205 GMT 15 May T

[Excerpt] Tokyo May 15 KYODO--The Japan-Soviet Economic Committee decided Wednesday to cooperate in a Soviet project for construction of paper pulp mills in the Soviet far east. The committee said a subcommittee will be set up to study ways of Japanese cooperation in the project. Fumio Tanaka, president of Oji Paper Co., will head the proposed organ.

The paper-pulp project was first proposed by the Soviet Union late last year when Prime Minister Kakuei Tanaka visited Moscow. Details of the project were not officially made known but Japanese business sources said the Soviet Union plans to build two pulp mills with an annual capacity of 500,000 tons each at an estimated cost of dollar 500 million. The plants will be built at sites along the Amur River or on the Pacific coast of Siberia.

Daily Summary of Japanese Press
6 Dec 71



NIHON KEIZAI (Page 7) (Full)

November 20, 1974

Negotiations on Soviet Timber Imports Having Rough Sailing; Confrontation over How to Deal with Contracted Timber; Next Year's Induction of KS Timber to Be Affected; Soviet Bargaining Based on Market Conditions

Toward the end of every year, an import contract on Soviet timber (general timber) is concluded between our country's timber-importing firms and the All-Soviet Timber-Export Corporation. No concrete progress, however, has been shown by the negotiations on the Soviet timber imports contract for 1975. This is because, of the amount of about 10 million cubic meters of timber contracted at the end of last year to be imported for this year, about two million cubic meters have become certain not to be imported within this year, partly due to the stagnation of our country's timber market conditions, and no agreement has been reached between Japan and the Soviet Union on how to deal with the remaining amount of timber. The trading firms' strong resistance to the Soviet posture, with which the Soviet Union intends to take advantage of the moves of our country's timber market in exporting timber to our country, has constituted the background of this problem. In case no contract is concluded within this year, it is feared to become a great obstacle in importing KS timber under the 2nd KS Project to be started from next year as part of economic co-operation between the two countries. Therefore, the moves of the Soviet side are being watched.

Soviet timber, side by side with US timber and South Seas timber, is one of the three largest amounts of timber imports. It accounts for nearly 10 per cent of the amount of timber consumed by our country. There are two major routes of imports thereof. One is on a commercial basis (general timber). The other is based on the KS Project (KS timber). General timber thereof accounts for about two thirds of it all. At the end of each year, negotiations are conducted between the All-Soviet Timber Export Corporation and each importing firm on the import amount and price for the next year, adopting an annual contract formula. For this year (January to December), an amount totaling about 10 million cubic meters was to be imported.

Our country's number of houses to be constructed, however, has greatly declined, causing a general stagnation in the timber market. As a result, each importing firm is reducing the amount of timber to be imported from the US, the South Seas and the Soviet Union. With regard to Soviet timber, under the specific situation of an annual contract, what cannot be consumed within the year concerned remains as a leftover from the contracted amount.

Prior to the start of negotiations on the conclusion of a contract for next year, the Soviet side is asking each importing firm to carry over to next year what is unconsumed of the contracted amount and import it at the contract price. The contract price was fixed through negotiations in the midst of the oil panic, and it is comparatively high -- on the average, it is about 68 dollars per cubic meter, 20 to 30 dollars higher than importing firms' payable line.

The firms are resisting the following points: Each year, 10 to 20 per cent of the contracted amount is left over from the contract. In the past, timber prices were rising annually. Therefore, judging it advantageous to export the leftover at a higher price than the contract price, the Soviet side raised no objection to it. On the other hand, it is considered certain that next year's contract price will be lower than this year's price, and the Soviet side is firmly demanding this year that the leftover should be imported under the contract.

IV. 24 Oct 74

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JAPAN

LOAN AGREEMENT WITH USSR ON FORESTRY RESOURCES SIGNED

Tokyo KYODO in English 0343 GMT 24 Oct 74 T

[Text] Tokyo Oct 24 KYODO--Japan and the Soviet Union have signed a yen 162,600 million (dollar 550 million) loan agreement to finance the development of forestry resources in the Soviet Far East, the Export-Import Bank of Japan announced here Thursday.

The agreement, the second between the two countries to cover Siberian projects, was signed in Moscow Wednesday (local time) by Haruo Maekawa, vice president of Ex-Im Bank, and Yuri A. Ivanov, chairman of the Soviet Foreign Trade Bank.

In June, the two banks signed a yen 126,300 million agreement to cover joint exploration of coal deposits in southern Yakutia in Siberia.

Under the latest agreement, the loan will be used to finance Soviet purchase of necessary equipment to be made in Japan by the end of 1978, the announcement said. In return, Japan will receive timber and logs for pulp.

The 6.375 percent loan is repayable in six years after the end of the lending period, the announcement added.

AGREEMENT REPORTED ON SECOND SIBERIAN FOREST PROJECT

Tokyo MAINICHI SHIMBUN in Japanese 19 Oct 74 Morning Edition p 7 T--
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[Excerpt] According to experts on Soviet-Japanese relations on 18 October, final agreement has been reached between Japan and the USSR on the second Siberian forest development project, part of the joint Soviet-Japanese Siberian development plan. A signing ceremony will be held if possible in October. The Soviet and Japanese governments will exchange documents in November to guarantee the promotion of the project.

The protocol on bank credits for the second Siberian forest development project and the basic agreement on the second project were signed in April and July respectively. According to the final agreement, the USSR will export 18.4 million cubic meters of lumber, a 10 percent increase over the 16.8 million cubic meters agreed to in past negotiations. This will extend over a 5-year period beginning in 1975. In the first forest development project, prices will be decided upon every year in accordance with international prices.

III. 2 Aug 74

USSR. INTERNATIONAL AFFAIRS

NORTHEAST ASIA

ROK VIEW OF 'FINE PROSPECTS' FOR TIES WITH USSR DENIED

Moscow TASS International Service in Russian 1341 GMT 1 Aug 74 L

[Text] Moscow--TASS observer Mikhail Yakovlev writes:

The South Korean HAPTONG TONGSIN agency has put out a statement by the chairman of a local trade association to the effect that "fine prospects" have allegedly been created for the establishment of trading relations between the USSR and South Korea. This personage claims that certain "Soviet representatives" are also of a similar opinion.

Everyone is aware that the USSR has never supported relations with puppet regimes, including the Seoul administration of Pak Chong-hui, and it does not support them now. It is even more strange to hear talk of "fine prospects" for establishing such relations at a time when the present rulers of Seoul have again displayed the political instability of their regime by unleashing cruel repressions against the people, whose interests they claim to represent.

It is evident that things are going badly for Pak Chong-hui and those around him, and it is evident that they are frightened by their growing isolation in the international arena, if they are forced to resort to such cheap tricks in the hope of misleading both the South Koreans and the world public.

SOVIET FORESTRY DELEGATION TO FINALIZE SIBERIAN PROJECT

Tokyo KYODO in English 1155 GMT 15 Jul 74 T

[Text] Tokyo July 15 KYODO--A Soviet delegation is expected to arrive in Japan on Wednesday to conduct final negotiations with the Japanese representatives over the second forestry resources development project, known as KS project, in the overall Siberian development program. General agreement was reached between Japan and the Soviet Union over the funds necessary for the project at the last Moscow meet.

As a result of negotiations so far conducted, it was agreed that Japan would furnish the Soviet Union with bank loans equivalent to dollar 500 million during a five-year period from 1975. Japan will also provide equipment and facilities necessary for developing forests and ships to transport lumber. Japan, in turn, is to import from the Soviet Union 18,400,000 cubic meters of lumber under the second KS project (16,800,000 cubic meters of lumber under the first KS project).

① MACHINERY EXPORTS FOR SOVIET 'WOODCHIP' PROJECT SLOWED

Tokyo ASAHI SHIMBUN in Japanese 28 Jul 74 Morning Edition p 7 T--FOR OFFICIAL USE ONLY.

[Excerpt] Japan's export of machinery to the Soviet Union for use in the "Far Eastern woodchips and woodpulp development" project, a Japanese-Soviet joint enterprise, is not going smoothly. While the machinery is supposed to be shipped completely by the end of this year, only 40 percent of the total has been shipped. Thus, Japanese circles concerned will obtain Soviet approval and soon request the government to extend the term.

In connection with this joint enterprise, Mitsubishi Shoji Co Ltd has signed a contract with the Soviet Tractor Corporation recently for the export of 100 bulldozers for forestry development plus replacement parts (Caterpillar Mitsubishi Products worth 1.20 billion yen). The contract calls for shipping them in the September-December period. Even if this is included, exports under the agreement only amount to less than \$10 million, well below the \$45 million involved in the agreement. The main reason for this has been unfavorable progress in the export negotiations due to currency instability and the soaring prices of required materials.

Japan-USSR chip trading is faring poorly

Implementation of the so-called "chip trade agreement" between Japanese paper-pulp makers and the Soviet Union is so slow that attainment of its goals looks virtually impossible.

The agreement provides for the Japanese getting Soviet chips and pulpwood in return for their exporting machinery and materials to the USSR for producing them.

Informants said prospects point that export of machinery to the Soviet Union will be only one-fourth of the amount set when the machinery export phase of the agreement terminates at the end of this year.

This means that import of chip and pulpwood from the Soviet Union which will continue up to the end of 1981 stands to be adversely affected.

Paper-pulp makers are greatly worried over such a situation as chip and pulp now are in short supply.

The "chip agreement" was signed in December, 1971 between V/O Expotles, the all-Soviet lumber export corporation, and 26 Japanese paper-pulp makers, with Japan Chip Trading of Tokyo.

The agreement provided that the Soviet Union would supply Japan during the period from 1972 to 1981 with 8,160,000 cubic meters of industrial chips and 4,700,000 cubic meters of broad-leaved tree lumber for pulp use.

In return, the Japanese were called on to supply the Soviet Union on a six-year deferred payment basis during the period from

1971 to 1974 with \$45 million worth of chip and pulp making facilities and \$5 million worth of commodities, such as shoes and clothing.

Informants said that while the commodity phase of the agreement has just about been met, the fulfillment rate for export of machinery has reached only 22% of the goal set.

Their exports, including wire rope, bulldozers and die cast machines, were said to have reached only \$10 million in value.

It was noted in this connection that there were many cases of export deals taking from two to three years to conclude.

Informants said this stemmed from the lack of interest shown by the Japanese in pushing conclusion of contracts with the Russians.

Soviet exports of chips and pulpwood to Japan also have not progressed well as the Russians say they have not been getting machinery and materials they want.

The agreement had provided for Japan getting 100,000 cubic meters of chips and 300,000 cubic meters of pulpwood in 1972, 400,000 cubic meters of chips and 200,000 cubic meters of pulpwood in 1973.

The fulfillment rate in 1972 was 85% and that for 1973, 60%.

During this year, imports of chip and pulpwood, taken together, up to June ran only to 115,000 cubic meters against the goal of 400,000 cubic meters.

Industry quarters are highly pessimistic as to the goal of securing 500,000 cubic meters in the July-December period.

THE JAPAN ECONOMIC JOURNAL

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CHEMICALS & TEXTILES

Raising of Soviet chip price will be accepted

The paper industry intends to swallow a raise of the price of Russian chips it imports in return for a Soviet promise to export agreed amounts to Japan without fail.

The industry will propose revision of the current import agreement with the Soviet Union along this line at the joint meeting of the private level Japan-Soviet Economic Cooperation Committee, now under way in Moscow.

The current agreement, signed in 1971, provides for the

Soviet shipping 8 million cubic meters of softwood chips and 4.7 million cubic meters of hardwood pulp timber annually over 10 years from 1972 through 1981. In return, Japan is to provide the Russians with materials and equipment for developing Siberian forestry resources, worth about \$45 million, over three years starting 1972.

But so far, the Soviet Union has failed to meet the export amounts set in the agreement. Its shipments of softwood chips and hardwood pulp wood are expected to be 70 per cent and 40 per cent smaller than the contracted volumes, according to the Japanese industry.

The Soviet Union wants the price of its export raised because Russian chips have become relatively cheaper by international standards because of the sharp increase in the price of American chips early this year.

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PRESS BULLETIN
January 12, 1972

EAST-WEST TRADE GENERAL

JAPANESE-SOVIET OIL PROJECT

Japanese business leaders hope to develop the Tumen oilfields in Western Siberia jointly with the U.S.S.R., the Federation of Economic Organisations (Keidanren) said in Tokyo on January 6. The project is on the agenda for the forthcoming fifth joint meeting of the Japanese-Soviet Economic Committee to be held in Tokyo next month, Keidanren said. American oil companies also planned to take part in the project in Siberia.

Daily Telegraph, 7.1.72

JAPANESE SOVIET ECONOMIC COMMITTEE CONCLUDES \$50 MN CONTRACT

The Japanese Soviet Economic Committee concluded after 4 years of discussions on December 6, 1971 a contract according to which the U.S.S.R. will deliver between 1972 and 1981 cellulose and wood chips worth \$50 mn to Japan in exchange for which the Japanese will deliver machinery and equipment for the production of cellulose and wood chips worth \$45 mn and \$5 mn worth of consumer goods between 1972 and 1974. The Japanese first expressed their willingness to buy wood chips in the U.S.S.R. as long ago as 1967, the proposition was accepted in principle by the U.S.S.R. but negotiations on prices took their time.

On the basis of this agreement the U.S.S.R. will deliver 8.05 mn cubic metres of wood chips and 4.7 mn cubic metres of cellulose. According to the communique world market prices will be paid for the Japanese machinery, the U.S.S.R. will pay 12 per cent in cash, the rest will be paid for in six annual instalments at 6% p.a. Consumer goods will be paid for immediately in full after deliveries. The Japanese paper industry has grown by an average of 10 per cent p.a. during the last ten years. Approximately 20 per cent of the total consumption of the raw materials have to be imported. The conclusion of the contract with the U.S.S.R. means that the supply situation for the Japanese paper industry will improve considerably.

Nachrichten fur Aussenhandel, 6.1.72

**MOSCOW, TOKYO AGREE ON SIBERIAN
FORESTRY-DEVELOPMENT PROJECT**

*Sino-Soviet
Affairs*

*No. 8,
1968*

Following years of discussion, the USSR and Japan on July 29 concluded their first major agreement on joint development of Siberian resources. The \$166 million forestry-development agreement, signed in Tokyo on that date, assures Japan a long-term supply of wood products with provisions that limit price risks. It also accords the USSR a substantial amount of Japanese machinery and credits on relatively easy terms.

According to Tokyo radio's report of the agreement, Japan is to provide \$133 million of Bulldozers and other timber-processing equipment for use in forests of the lower Amur River. The \$106 million bill remaining after a 20% Soviet down-payment is to be covered by a 5 year Japanese buyer credit, which is repayable in kind (i.e., wood products) rather than in hard currencies by the USSR. In addition, the Japanese agreed to ease their usual terms (6 months) on consumer-good exports, extending a 1 year credit to cover deliveries of \$15 million of rubber shoes, clothing, and other necessities in 1968 to Siberian forestry-development sites. Another \$18 million in Japanese consumer goods will be supplied in later years, most of it under a 6 month credit.

On the Japanese side, the agreement reportedly specifies imports of 8.02 million cubic meters of Soviet timber, wood chips, or pulp during 1969-73. Stipulated price formulas provide a guaranteed ceiling against possible future increases in world timber prices.

The \$106 million machinery component of this transaction represents the second largest Soviet order for Western equipment under buyer-repayment conditions. This deal came less than 2 months after the largest, a \$110 million Soviet order placed in Austria for gas pipe to be compensated over 7 years by shipments of Soviet natural gas (see separate item, p.). Together, these two agreements are equivalent in value to about two-fifths of the total orders that the USSR placed in the industrial West during the whole of 1967--in most cases on much stricter terms.

The proximity in time of the timber and gas transactions might well lead the Soviets to hope for some sort of bandwagon effect--in the sense of proffers of larger chunks of technical assistance on concessional terms--in industrialized non-communist countries. If so, special Soviet scrutiny in this regard will probably be focused on Japan, which has for years shown interest in other Siberian resource-development projects (e.g., regarding gas, oil, copper ore) of even greater scale than the forestry scheme. **CONFIDENTIAL**